

REPORT TO THE CONGRESS

**An Analysis of the President's Budgetary
Proposals for Fiscal Year 2002**

MAY 2001



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NOTES

Numbers in the text and tables may not add up to totals because of rounding.

Unless otherwise indicated, all years referred to are fiscal years.

Preface

This Congressional Budget Office (CBO) analysis of the President's budget request for fiscal year 2002 was prepared at the request of the Senate Committee on Appropriations. It was produced by the staffs of CBO's Budget Analysis, Macroeconomic Analysis, and Tax Analysis divisions under the supervision of Robert Sunshine, Robert Dennis, and Tom Woodward. The baseline revenue estimates were prepared by CBO; the estimates of the President's revenue proposals were prepared by the Joint Committee on Taxation.

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An Analysis of the President's Budgetary Proposals for Fiscal Year 2002

On April 9, President Bush submitted to the Congress the formal documents detailing his budget plan for fiscal year 2002. The broad outlines of that plan had been submitted on February 28 in a preliminary document titled *A Blueprint for New Beginnings*. There are few significant differences between the broad budget policies outlined in the President's blueprint and those detailed in his April submission.

At the request of the Senate Committee on Appropriations, the Congressional Budget Office (CBO) has prepared this analysis of the President's April budget submission. The President's plan would produce a total budget surplus of \$257 billion in 2002, CBO estimates, including an on-budget surplus of \$86 billion and an off-budget surplus of \$171 billion (see Table 1 on page 12). The off-budget figure consists almost entirely of the surpluses of the Social Security trust funds. Budget surpluses over 10 years (2002 through 2011) would total about \$3.2 trillion under the President's proposals—\$0.7 trillion on-budget and \$2.5 trillion off-budget. CBO's estimates of the budget plan are similar to those of the Administration (see Table 2).

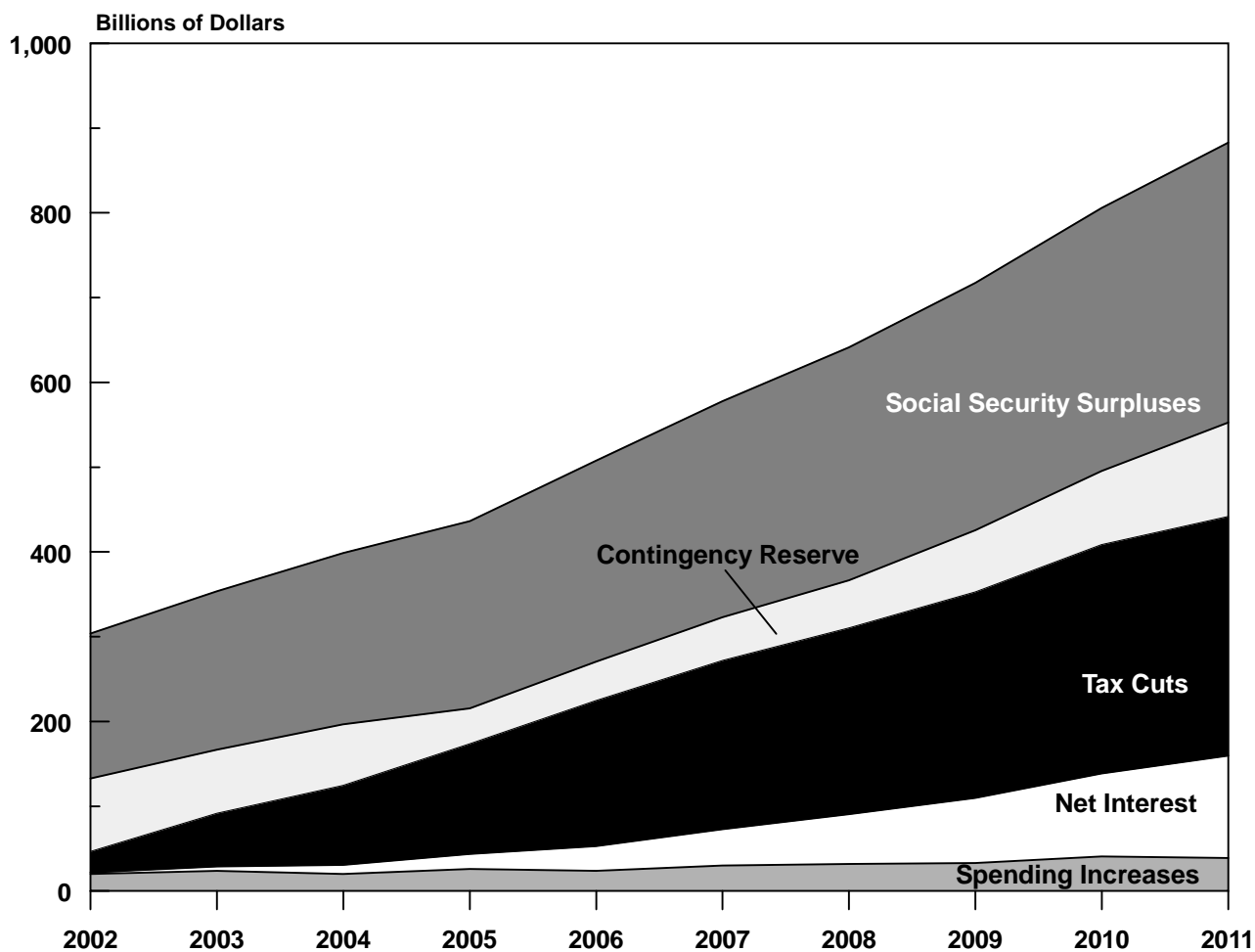
The President's budget specifies plans for allocating projected surpluses over the 2002-2011 period (see Figure 1). In the absence of policy changes, CBO projects surpluses totaling \$5.6 trillion over the 10-year period. The President proposes to devote all of the off-budget surpluses, which CBO estimates will total \$2.5 trillion, to reducing debt held by the

public.¹ The President's tax and spending policies, CBO estimates, would lower total surpluses by about \$2.4 trillion. The President's proposals to cut taxes make up the largest component of that reduction. The Joint Committee on Taxation (JCT) and CBO estimate that those proposals would reduce baseline surpluses by nearly \$1.8 trillion between 2002 and 2011 (excluding their impact on debt service). About \$1.7 trillion of the reduction would come from lower estimated revenues and about \$75 billion from higher outlays for refundable tax credits. Relative to CBO's baseline, other increases in spending would consume about \$0.2 trillion of the projected 10-year surplus, and increased debt-service costs would use another \$0.5 trillion.² The President proposes to set aside the remaining surpluses, which CBO estimates at about \$0.7 trillion, in a contingency reserve to be used for emergencies, programmatic reforms, further debt reduction, or other purposes. However, because the President's budget does not include specific proposals for using the surpluses held in reserve, CBO assumes in this analysis that they would be used to pay down the debt.

1. CBO estimates that the President's budget policies would have negligible effects on baseline off-budget surpluses, summing to about \$6 billion over the 2002-2011 period.

2. Although CBO and JCT have been able to develop independent estimates for most of the President's proposals, the budget does not include any details of the major health care initiatives—the Immediate Helping Hand and Medicare Modernization proposals. Consequently, this analysis uses the Administration's figures for the cost of those proposals (\$3 billion in 2001 and \$153 billion over the following 10 years).

Figure 1.
Allocation of Projected Baseline Surpluses Under the President's Budget (By fiscal year)



SOURCE: Congressional Budget Office.

Strong economic growth over the past few years has been the largest single cause of the surpluses, but recent signs of a weakening economy have prompted concern that projections of the surplus may fall. Although current economic conditions are somewhat weaker than CBO anticipated last winter, it is not clear that they warrant significant changes to CBO's long-term economic projections.³ CBO does not normally revise its economic forecast until the summer, when it prepares its midyear update of the budget baseline. This analysis, therefore, does not reflect any revisions to CBO's economic assumptions.

3. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, January 2001.

CBO's Baseline

A baseline is a projection of spending and revenue levels under current budget policies and current economic assumptions. CBO prepares a 10-year baseline under the requirements and guidelines of the 1985 Balanced Budget and Emergency Deficit Control Act and the 1974 Congressional Budget Act, as amended. Revenues and mandatory spending, both of which typically flow from provisions of permanent law, are projected at levels that are estimated to occur under current policies. Discretionary spending, which is provided anew each year in appropriation

acts, is projected at the levels enacted for the current year and adjusted for the projected rate of inflation.

The baseline is intended to be a neutral benchmark against which lawmakers can assess the budgetary impact of proposals to change laws governing spending or revenues. It is not a prediction of future outcomes. Policies will change and the economy will perform differently, either better or worse, than CBO now projects. Thus, baseline projections are inherently uncertain, especially in the later years of the 10-year projection period.⁴

In conjunction with this analysis of the President's budget, CBO has revised its January 2001 baseline projections to take into account new information from the President's budget and from other sources. In general, CBO's revised projections differ little from those in its January baseline (see Table 3). The changes reflect technical revisions, such as year-to-date information on spending and receipts, revised rates of projected spending, and budget reclassifications. CBO has not changed the economic assumptions that underlie the baseline, and no new laws affecting spending or revenues have been enacted since the January baseline was prepared.

Like the January baseline, CBO's revised baseline shows record surpluses that grow steadily throughout the 10-year projection period. CBO's estimate of the total surplus for the 2002-2011 period remains essentially unchanged at about \$5.6 trillion. Of that amount, on-budget surpluses would total \$3.1 trillion and off-budget surpluses about \$2.5 trillion. CBO continues to project that by 2006 those surpluses would be sufficient to pay off all of the publicly held debt that will be available to be redeemed (see Table 4).⁵

Revisions to Estimates for Fiscal Year 2001

The total budget surplus will reach \$275 billion in fiscal year 2001, CBO estimates, \$6 billion lower than projected in January. That total comprises an on-budget surplus of \$119 billion and an off-budget surplus of \$156 billion (see Table 5). Revisions to the projected on-budget surplus account for nearly all of the difference, reflecting various technical revisions for updated data on receipts and outlays recorded since January and for new information from the President's budget and other sources.

Revenues for 2001 are expected to be lower—by about \$20 billion—than CBO estimated in January. CBO now projects that corporate receipts in 2001 will fall \$15 billion short of the amount it projected in January, a decline of about 3.5 percent below last year's level. CBO also reduced its estimate of revenues for 2001 by another \$5 billion to reflect lower-than-expected collections of withheld income taxes since January. Corporate tax receipts and, to a lesser extent, withheld income taxes have been weaker than expected. Corporate receipts through April were 2.6 percent below those recorded a year ago. That weakness developed recently; from February through April, corporate receipts were 18 percent below the amount recorded during the same period last year. That development is consistent with the weak level of profits recently announced by firms and indicated by national income data for the fourth quarter of calendar year 2000 and the first quarter of 2001. Much of the weakness in profits and receipts was not anticipated when CBO prepared its January baseline projections.

The drop in the 2001 surplus caused by the estimate of lower revenues is partially offset by CBO's estimate of lower spending for 2001. CBO anticipates that this year outlays will fall about \$14 billion below the level it estimated in January. That drop in spending largely results from a net reduction of \$11 billion in estimated subsidy costs for credit programs that the President's Office of Management and Budget (OMB) plans to record this year. The reduction is an accounting adjustment that OMB makes each year to represent changes in its estimates of the long-term costs of federal direct loans and loan guarantees (see Box 1). Other revisions include a mix of relatively

4. For more information about the uncertainty of budget projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, Chapter 5.

5. In any given year, certain amounts of publicly held debt, such as debt that matures in later years, are not available for redemption. Under CBO's revised baseline, such debt is projected to total \$1,306 billion in 2006 and \$898 billion in 2011.

Box 1.**The Cost of Credit Programs in the Federal Budget**

The federal budget includes dozens of programs that either provide direct loans to individuals or businesses or guarantee loans made by private financial institutions. In 2000, federal agencies issued about \$35.5 billion in direct loans and guaranteed \$180.6 billion of loans issued by others. The terms and conditions of those direct loans and loan guarantees vary, with some programs offering below-market interest rates, some charging fees that are expected to cover most or all of the costs, and others guaranteeing loans for particularly risky ventures.

In 1992, the federal budget began recording the cost of credit programs (direct loans and loan guarantees) as the estimated subsidy cost to the federal government of extending credit. The estimated subsidy cost is defined as the net present value of the credit program over its full term, accounting for interest rate subsidies, fees, expected repayments, and anticipated defaults.

Accurately projecting loan repayments, defaults, and changes in market interest rates over the uncertain and sometimes lengthy life of federal credit programs is very difficult, and errors are inevitable. The Federal Credit Reform Act of 1990 anticipated the problem, directing agencies to reestimate the cost of the federal credit subsidy for individual programs. Agencies have recorded such reestimates each year since 1994.

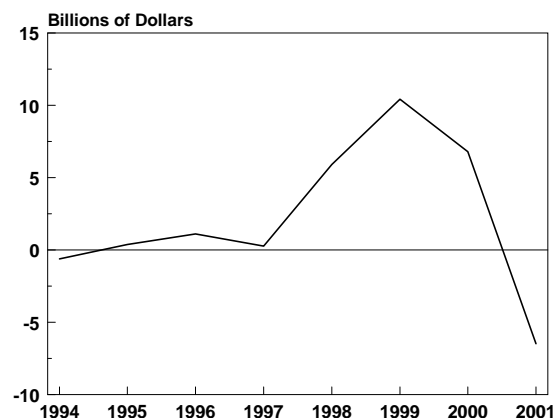
The President's budget for 2002 includes credit subsidy reestimates that will decrease on-budget outlays by nearly \$18 billion in 2001. Of that \$18 billion, about \$14 billion represents changes in the estimated subsidy needed for outstanding loans, and \$4 billion represents the interest savings on those changes. In its January 2001 baseline, the Congressional Budget Office (CBO) accounted for nearly \$7 billion in credit subsidy reestimates that it anticipated would be made by the Federal Communications Commission and the Small Business Administration. CBO's May baseline reflects the remaining \$11 billion in credit subsidy reestimates that have been included in the President's budget.

The reestimates in 2001 will be the largest reduction in outlays for credit subsidies ever recorded. They also differ in direction from most previous reestimates, which in total added about \$7 billion to outlays over the 1994-2000 period, excluding interest. The figure at right shows cumulative reestimates

(without interest) since 1994, indicating the total difference between the original estimate and the current estimate of the costs of credit.

Over the 1994-2001 period, the magnitude of annual changes has grown. Aside from loans connected to the auction of licenses to use portions of the electromagnetic spectrum, as the portfolio of outstanding loans increases each year, the magnitude of reestimates is also likely to grow. At this time, however, CBO has no basis for anticipating the direction, size, or timing of future reestimates.

**Cumulative Net Credit Subsidy Reestimates,
Excluding Interest, 1994-2001**



SOURCE: Congressional Budget Office based on data from *Budget of the United States Government, Fiscal Year 2002: Analytical Perspectives*, pp. 163-4.

Despite the magnitude of the reestimates for 2001, those and earlier reestimates still may not indicate the ultimate cost of credit programs. Many of the loans the government makes or guarantees will not mature for years; for 20-year loans made in 1992, final information on subsidy costs may not be available until 2012 or later. Additionally, the performance of existing loans may not accurately predict future behavior. The timing of defaults over the lifetime of a particular loan portfolio is uncertain. Even though the percentage of loans defaulting through 2000 might have been lower than expected (given historical averages), it is possible that more defaults will occur in the next few years. Loan performance during recent years (when the U.S. economy has experienced strong growth) may not be a good indicator of loan performance over the next several years (when economic conditions might not be as favorable).

small increases and decreases in spending that reduce net outlays for the year by another \$3 billion. Those revisions include slower-than-anticipated growth in discretionary spending for the year and other technical changes.

Revisions to Projections for Fiscal Years 2002-2011

For fiscal years 2002 through 2011, CBO made smaller annual changes in its baseline to reflect the impact of the updated information received for the current fiscal year and other technical factors. For the 10-year period, CBO raised its estimate of total surpluses by \$19 billion over the January projections.

CBO views the recent decline in corporate profits and tax receipts as a cyclical weakness in economic activity rather than a permanent one. Therefore, it expects that over the next two years, profits and receipts will revert to the levels projected in January. As a result, CBO reduced its estimate of corporate receipts by \$10 billion for 2002 and \$5 billion for 2003. It made no changes to the revenue projections beyond 2003.

CBO lowered its estimate of total outlays for the 2002-2011 period by about \$34 billion, reflecting net reductions of \$27 billion in discretionary outlays and \$7 billion in mandatory outlays (see Table 3). One of the largest revisions in the two categories of spending reflects a budget-accounting change for offsetting collections of the Federal Housing Administration's Mutual Mortgage Insurance program. Those collections, now estimated at about \$26 billion over the 10-year projection period, have been moved from the mandatory to the discretionary category to be consistent with OMB's treatment of the program. That reclassification lowers discretionary spending by \$19 billion and increases the mandatory total by the same amount. In addition, CBO has increased its estimate of those collections by \$7 billion since January to reflect a higher anticipated volume of loans. Other revisions in mandatory spending reflect slight changes in estimated caseloads for Supplemental Security Income, Medicaid, and the State Children's Health Insurance Program.

The President's Budgetary Policies

In general, CBO's estimates of the President's budget are similar to the Administration's over the 10-year projection period (see Table 6). The estimated surpluses differ by \$253 billion over 10 years—with both CBO and the Administration estimating about \$26 trillion in revenues and \$23 trillion in outlays over that period. The small discrepancies are split between differing estimates of the President's policy proposals and different baseline budget projections (see Table 7). Baseline economic and technical differences between CBO and the Administration are discussed later in this report.

Surpluses under the President's budget would sum to about \$3.2 trillion over 10 years, CBO projects. Of that amount, on-budget surpluses would total \$0.7 trillion and off-budget surpluses would amount to \$2.5 trillion. The President proposes to devote all of the projected off-budget surpluses—essentially the surpluses of the Social Security trust funds—to reducing debt held by the public. CBO estimates that total surpluses under the President's budget would be sufficient by 2009 to pay off all publicly held debt that will be available for redemption (see Table 4).

CBO anticipates that the President's tax and spending policies would lower surpluses by about \$2.4 trillion compared with its baseline (see Table 8). Those budget effects are concentrated in two broad policy proposals—tax cuts and changes to Medicare. Based on information provided by the JCT, CBO estimates that the President's proposals to cut taxes would lower projected surpluses by \$1.774 trillion over the 2002-2011 period. That estimate includes \$1.698 trillion in lower revenues and \$76 billion in higher outlays for the refundable portion of the President's tax proposals. The President's Medicare proposals, including prescription drug coverage and other changes, are referred to collectively in his budget as the "Immediate Helping Hand and Medicare Modernization" plan. Those proposals have not been specified in detail, so CBO could not prepare an inde-

pendent estimate. The President's budget includes \$153 billion for those proposals over the 2002-2011 period, and CBO has used that figure in this analysis.

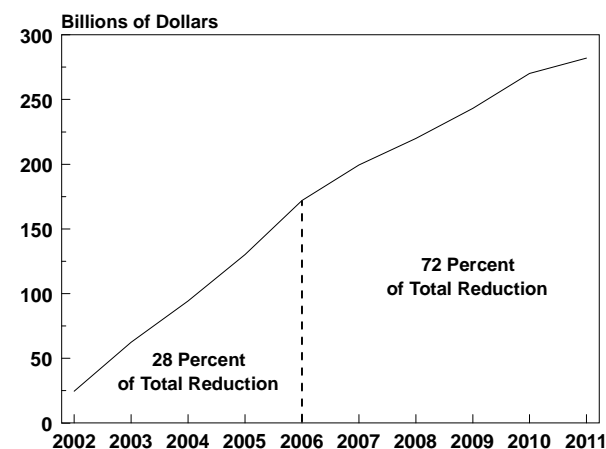
The President's proposals for discretionary spending would increase outlays by about \$6 billion in 2002 and about \$78 billion over the 2002-2011 period, relative to CBO's baseline projections. (The Administration estimates that discretionary outlays under the President's budget would rise about \$28 billion above its baseline projections over the 10-year period—with most of that increase in the first five years.) Those increases differ largely because of differences in projected inflation and spending rates. In addition, CBO estimates that the President's budget proposals would result in \$462 billion in additional outlays for net interest, mainly for higher debt service.

The President proposes to allocate the remaining on-budget surpluses, which CBO estimates at nearly \$700 billion, to a contingency reserve. That amount might be used for emergencies, other unforeseen needs, program reforms, or other purposes over the 2002-2011 period. CBO's estimate of the President's budget assumes that the reserved amounts would reduce publicly held debt or increase uncommitted funds.⁶ However, if the contingency reserve was used, both total and on-budget surpluses would fall from the levels that CBO now estimates under the President's budget.

Revenue Policies

The President's budget proposes changes to tax law that would significantly reduce tax revenues over the next decade. The package largely consists of proposals to reduce revenues from the personal income tax, estate and gift taxes, and, to a much smaller extent, the corporate income tax. The major proposals would start in 2002 and phase in over time, becoming fully effective in 2006 or beyond.

Figure 2.
Reduction in Revenue Under the President's Proposed Tax Cuts, 2002-2011 (By fiscal year)



SOURCE: Congressional Budget Office.

CBO and JCT estimate that the proposals in total would reduce revenues by \$1.698 trillion over the period from 2002 through 2011 and would increase outlays by \$76 billion over the same period through their effects on refundable credits (see Table 9).⁷ As a share of projected gross domestic product (GDP), the revenue reductions would average 1.2 percent over the 10-year period, increasing steadily from 0.2 percent of GDP in 2002 to 1.7 percent of GDP by 2011. The budget includes only two revenue-increasing proposals, which would raise miscellaneous receipts by about \$1 billion over the 10-year period.

Under the President's plan, the major reductions in personal income taxes would become fully effective in 2006, and estate and gift taxes would be fully repealed by 2009. In all, 28 percent of the estimated reduction in revenue over 10 years would occur during the 2002-2006 period, and the remaining 72 percent would occur during the 2007-2011 period (see Figure 2). The disproportionately large share of the dollar reductions that would occur in the second half of the budget period in part reflects growth in projected income over time, but mostly reflects the

6. "Uncommitted funds" is CBO's term for the surpluses remaining each year after paying down the publicly held debt available for redemption. For further discussion, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, p. 15.

7. For proposals that would amend the Internal Revenue Code, CBO is required by law to use estimates provided by the Joint Committee on Taxation. For those estimates, see Joint Committee on Taxation, *Estimated Revenue Effects of the President's Fiscal Year 2002 Budget Proposal*, JCX-31-01 (May 4, 2001).

phasing-in of the proposals. Adjusting the figures for that growth in income, CBO calculates that 33 percent of the estimated revenue reductions relative to projected GDP would occur during the first half of the 10-year period and the other 67 percent would occur during the second half.

Seven proposals account for over 90 percent of the cost of the President's tax package. The proposals to reduce existing statutory tax rates and create a 10 percent rate account for about half of the cost over the 2002-2011 period (see Table 9). Following is a brief summary of the major proposals and the total amount by which each proposal would reduce surpluses over the 2002-2011 period.⁸

- o **Reduce Existing Statutory Tax Rates on Personal Income.** The President's proposed rate reductions, which would begin in 2002 and phase in gradually, would replace the five existing statutory tax rates with three rates by 2006. In that year and beyond, income currently taxed at rates of 39.6 percent and 36 percent would be taxed at a rate of 33 percent; income now taxed at a rate of 31 percent and 28 percent would be taxed at 25 percent; and part of income currently taxed at 15 percent would still be taxed at that rate. (Reduction in surpluses: \$560 billion.)
- o **Create a 10 Percent Tax Bracket.** This proposal would establish a new tax rate that would apply to a part of income currently taxed at a rate of 15 percent. The new rate would be 14 percent in 2002 and fall by 1 percentage point a year until it reached 10 percent in 2006 and thereafter. The new rate of 10 percent would apply to earned income of up to \$12,000 for couples filing jointly and \$6,000 for single filers. (Reduction in surpluses: \$317 billion.)
- o **Repeal the Estate and Gift Tax and Enact a Carryover Basis of Assets.** Tax rates that apply to the estate and gift and generation-skipping taxes would be reduced each year starting in 2002 until those taxes were completely phased out by 2009. After repeal, the basis of property passed to inheritors would be the smaller of the fair market value or the adjusted basis at the time of the decedent's death. Thus, unrealized accruals of capital gains during the decedent's life would be subject to taxation under the income tax when realized by an inheritor. The proposal would allow certain limited adjustments to basis so the proposed basis change would generally not affect inheritors of estates that are not now large enough to be subject to estate and gift taxes. (Reduction in surpluses: \$306 billion.)
- o **Increase the Child Tax Credit.** Starting in 2002, the President's budget would incrementally increase the existing credit of \$500 per child until it reached \$1,000 per child in 2006. The credit would not be indexed for inflation after 2006. It would also apply to the alternative minimum tax starting in 2002. In addition, the current phasing out of the credit for taxpayers with income above certain thresholds would change. For example, instead of phasing out for taxpayers filing jointly who have more than \$110,000 of income, as under current law, in 2006 and thereafter the phase-out would apply only to joint filers with income exceeding \$200,000. (Reduction in surpluses: \$211 billion.)
- o **Reinstate the Two-Earner Deduction.** The President would reinstate the deduction for families with two income earners that was in effect from 1982 to 1986. The deduction would start in 2002 and increase over time so that by 2006, when the proposal would become fully effective, taxpayers filing jointly would be allowed to deduct 10 percent of up to \$30,000 of income earned by the lower-earning spouse. The cap of \$30,000 would not be indexed for inflation beyond 2006. The deduction is intended to reduce existing marriage penalties, in which certain married couples pay more tax jointly than they would pay combined if they were not married and filed their taxes as single taxpayers. However, the proposed deduction would also benefit two-earner couples who do not face marriage penalties under current law. (Reduction in surpluses: \$103 billion.)

8. Separate estimates of each proposal's effect on revenues and outlays are not available.

- o **Allow Taxpayers Who Do Not Itemize Deductions to Deduct Certain Charitable Contributions.** Nonitemizers would be allowed to deduct their charitable contributions up to the amount of the standard deduction. That change would be phased in starting in 2002 and become fully effective by 2006. In that year, CBO projects, the standard deduction would be \$8,650 for married taxpayers filing jointly and \$5,200 for single taxpayers. (Reduction in surpluses: \$84 billion.)
- o **Permanently Extend the Research and Experimentation Tax Credit.** The credit is scheduled to expire on June 30, 2004. It was originally enacted in 1981 on a temporary basis and has been extended, sometimes in amended form, 10 times since then. The President's proposal would make the current credit permanent. (Reduction in surpluses: \$47 billion.)
- o **Other Proposals.** The President proposes a number of other changes to tax law, including providing certain individuals with a refundable health insurance credit; allowing individuals a deduction for some long-term care premiums; providing a tax credit to some people who invest in affordable housing projects; and extending certain expiring provisions for one year. (Reduction in surpluses: \$146 billion.)

Mandatory Spending Policies

Mandatory spending is usually provided by laws other than appropriation acts. It constitutes about two-thirds of total spending and goes largely for major entitlement programs such as Social Security, Medicare, Medicaid, federal retirement, and other benefit programs (see Table 10). Offsetting receipts are also considered part of mandatory spending.

The President's principal mandatory spending initiatives focus on Medicare. Those initiatives are referred to in the budget as the "Immediate Helping Hand and Medicare Modernization" plan. Because the President's budget offers little detail on the proposed changes to Medicare, CBO used the Administration's estimates of the President's Medicare proposals in this analysis.

Immediate Helping Hand and Medicare Modernization. The President's Immediate Helping Hand proposal would give states grants that the Administration estimates would total \$3 billion in 2001 and \$43 billion over the 2002-2005 period. Those grants would be used to pay for prescription drugs and other health care services for Medicare beneficiaries with low income or high out-of-pocket spending. That grant program would end in 2005, when a Medicare Modernization initiative would add coverage of prescription drugs and protection against high out-of-pocket expenses to Medicare. The Administration estimates that the initiative would increase Medicare spending by \$110 billion over the 2005-2011 period.

Medicaid. The President's budget contains a proposal that would restrict states' ability to generate additional Medicaid funds using financing mechanisms related to the Medicare upper payment limit (UPL). Federal regulations issued under the Benefits Improvement and Protection Act of 2000 limit total Medicaid payments for inpatient and outpatient services provided in hospitals operated by local governments to 150 percent of the UPL. The regulations provide a transition period for states that have been making payments in excess of that limit to come into compliance.

Under the Administration's proposal, the federal government would no longer approve amendments to state Medicaid plans that raise payments to hospitals operated by local governments above 100 percent of the UPL. That proposal would not apply to states with plan amendments that were approved on or before December 31, 2000; their limit would remain at 150 percent of the UPL.

CBO estimates that this proposal would reduce federal Medicaid outlays by about \$11 billion over the 2002-2011 period, whereas the Administration estimates that it would save about \$17 billion over the same period. (CBO estimates that other proposals in the President's budget that affect Medicaid would increase outlays by about \$1 billion over the 10-year period.) CBO and OMB have similar estimates of the additional Medicaid payments that will be made under current law because the payment limit for local hospitals is 150 percent of the UPL instead of 100 percent. However, CBO expects that a larger share of those payments will be made to states whose

Medicaid plan amendments have already been approved. Since those states would not be affected by the Administration's proposal, CBO's estimate of the savings from the proposal is lower than that of OMB.

Spectrum Auction Receipts. The President's budget includes three proposals that would affect offsetting receipts from the Federal Communications Commission's auction of licenses to use portions of the electromagnetic spectrum. Two proposals involve frequencies slated for auction under the Balanced Budget Act of 1997. The first proposal—a roughly two-year delay in the start of two auctions—would increase proceeds by a total of \$1.8 billion over the next five years, CBO estimates, because the auctions would be held closer to the time when the frequencies could be used by the winning bidders. The second proposal aims to reduce the encumbrances on some of those frequencies so they can be used for new services faster than expected under current law. CBO cannot estimate the budgetary impact of that proposal because the President's budget does not provide any details about the new policy. Under the President's third proposal, the government would collect \$200 million a year by imposing a lease fee on spectrum used by commercial entities for analog television broadcasts. CBO estimates that such a fee would increase offsetting receipts by a total of \$1.6 billion over the 2002-2011 period.

Discretionary Spending Policies

Discretionary spending, which constitutes the remaining one-third of total spending, is provided in and controlled by appropriation acts. In general, it is provided one year at a time and funds a wide array of government activities, including defense, international affairs, energy, education, housing, scientific research, transportation, and general government functions.

CBO estimates that the President's budget would boost total new discretionary budget authority for 2002 to \$661 billion, an increase of about 4 percent over the amount enacted for 2001 (see Table 11). By comparison, new budget authority for discre-

tionary programs increased by about 6.4 percent from 2000 to 2001.⁹

Within that overall rate of growth, however, the President recommends larger increases for certain high-priority programs and smaller increases or reductions for others (see Table 12). For example, the President's budget proposes to increase budget authority for defense by about 4.5 percent, CBO estimates, and for education, training, and other related programs by about 6.9 percent. Excluding those two categories, new budget authority for discretionary spending in 2002 would increase by 2.9 percent over the amount enacted in 2001. In addition, the Administration is conducting a strategic review of defense activities that may lead to changes in the President's request for defense spending.

The President's proposed level of discretionary spending for 2002 does not reflect \$22.7 billion in budget authority enacted as advance appropriations in 2001 appropriation acts. In general, advance appropriations are amounts of new discretionary budget authority that become available in the fiscal year following the year covered by the applicable appropriation act. The President asserts that excessive amounts of advance appropriations have been enacted in recent years in order to stay within the limits on discretionary appropriations for the budget year. He therefore proposes to provide the full amount of "normal" funding for the affected programs in 2002 and requests no advance appropriations for 2003. That change in practice would result in an unusually large amount of discretionary budget authority for 2002. The President therefore proposes language, to be included in appropriation acts for 2002, that would reclassify \$22.7 billion in budget authority for advances in 2002 as mandatory. That reclassification would affect only advances for 2002 made in 2001 appropriation acts and would not affect outlays.

Over the 2002-2011 period, CBO estimates, total new discretionary budget authority under the President's budget would grow at an average annual rate of about 2.7 percent, a rate of increase generally

9. In calculating those rates of growth, CBO adjusted its baseline totals of new discretionary budget authority for 2000 and 2001 to restore certain advance appropriations to the normal program year. Those advances represent delayed funding of amounts that ordinarily would have been provided in the previous year.

in line with CBO's baseline for discretionary budget authority.

Contingency Reserve

The contingency reserve proposed by the President reflects the portion of the projected 10-year on-budget surplus that is estimated to remain after the President's spending and tax policies take effect. That amount, estimated by CBO at about \$700 billion, is based on current baseline projections of surpluses for the 2002-2011 period. The Administration's estimate of the reserve amount is \$841 billion.

The President proposes that criteria be established for using the reserve and that amounts from the reserve be available only if specifically requested by the President and designated for that purpose by the Congress in statute. He proposes to enforce the reserve amount by extending the statutory caps on discretionary spending through 2006 at the levels proposed in his budget and to continue the pay-as-you-go requirement for new laws affecting mandatory spending or revenues. Those requirements would, if enforced, prevent new spending or revenue laws from reducing projected surpluses. They would not, in their current form, keep surpluses from falling because of a downturn in the economy or because of technical revisions in spending or revenue levels that were unrelated to the enactment of new laws.

Comparison of CBO's and the Administration's Economic Projections

The Administration's economic projections result in larger estimates of revenues and surpluses than those implied by CBO's economic assumptions. Both the Administration and CBO project that real GDP growth will average 3.1 percent a year during the 2002-2011 period. Other aspects of their projections differ, however, resulting in higher projected revenues under the Administration's outlook.

Because the Administration assumes both slightly greater inflation and higher taxable income

as a share of GDP, the projected size of the tax base is higher under its assumptions (see Table 13). The Administration projects that the growth of the GDP price index will average 2.1 percent per year, 0.2 percentage points higher than CBO's projection. That causes the Administration's projected level of nominal GDP to be almost \$400 billion higher than CBO's in 2011, even though both project the same real growth of GDP. Similarly, corporate profits and wage and salary disbursements are assumed to account for a higher share of GDP in the Administration's forecast, averaging 56.9 percent over the 2002-2011 period, whereas CBO projects that those shares will average 56.2 percent. The combination of higher nominal GDP and higher shares of those two income categories imply a projected tax base higher than CBO's by 2011.

The Administration's economic assumptions do not imply significantly higher outlays in spite of the faster growth of the GDP price index and slightly higher interest rates. Projections of outlays are affected more by the growth of the consumer price index (CPI) than by the growth of the GDP price index, and CBO and the Administration have similar forecasts for the CPI. The Administration projects that both short-term and long-term interest rates will be about 0.5 percentage points higher in the early years of the projection period than CBO does, but the forecasts are similar for subsequent years. In addition, the Administration assumes that the unemployment rate will, on average, be lower than CBO assumes, which holds projected spending down slightly.

Differences Between CBO's and OMB's Baseline Estimates

The differences between CBO's and OMB's baselines are small (see Table 14). Both agencies project total surpluses of about \$5.6 trillion for the 2002-2011 period. Their estimates of the on-budget and off-budget totals are also very similar. CBO projects on-budget surpluses of \$3.1 trillion and off-budget surpluses of \$2.5 trillion; OMB projects on-budget surpluses of \$3.0 trillion and off-budget surpluses of \$2.6 trillion.

Most of the difference in on-budget surpluses comes in the first three years of the 10-year projection period. OMB's projected on-budget surpluses for 2002 through 2004 are \$21 billion to \$26 billion lower than CBO's, mainly because CBO projects higher revenues and lower interest costs for those years. However, both agencies project on-budget surpluses that are well over \$100 billion in 2002 and that rise steadily throughout the projection period.

CBO's estimate of baseline revenues over the 2002-2011 period is lower than OMB's by about \$110 billion, which is only 0.4 percent of total projected revenues over that period. That modest difference arises from a number of partially offsetting factors. As described above, CBO projects lower nominal GDP and mostly lower tax bases than OMB does, causing CBO's estimate of revenues to be lower by about \$600 billion. About \$500 billion of that difference is largely offset by CBO's projection of a higher level of tax receipts—especially from individual income taxes—for a given level of income in the economic forecast. Nearly all of the overall difference is in off-budget receipts. The lower levels of GDP and wage income in CBO's projection cause its estimate of off-budget payroll tax receipts to be lower than the Administration's by about \$100 billion. That difference is not offset because CBO and the Administration have very similar projections of payroll tax receipts for a given level of wages.

CBO's estimate of on-budget outlays is about \$100 billion lower than OMB's over the 2002-2011 period, so the aggregate surplus figures end up almost the same. The largest source of difference results from projections of interest rates over the 10-year period. CBO's projection of slightly lower interest rates causes its estimate of interest payments and of proceeds from uncommitted funds to be lower than the Administration's.

Comparison of the President's Budget and the Congressional Budget Resolution

On May 10, the Congress adopted its concurrent resolution on the budget for fiscal year 2002

(H. Con. Res. 83). The Congressional budget resolution establishes the broad budget priorities of the Congress. Unlike the President's budget, it contains little or no detail. Instead, it sets forth spending and revenue recommendations in the form of aggregate levels and functional categories of spending. The resolution is a Congressional document only; it is not presented to the President for his approval and does not become law. Spending and revenue bills for the fiscal years covered by the budget resolution are considered separately and generally are required to be consistent with the resolution's levels.

The President's budget and the Congressional budget resolution recommend broadly similar budget policies over the 10-year projection period (see Table 15). The amounts shown in that table for the President's budget and the CBO baseline were prepared by CBO. Those for the budget resolution, which CBO does not review, reflect the levels adopted by the Congress.

Compared with CBO's baseline, the President's budget would allocate \$2.4 trillion of the total projected surplus for new spending and tax policies; the budget resolution would allocate \$2.2 trillion for such policy changes. Both budget plans include significant tax reductions—the President's budget proposes tax cuts that JCT estimates would amount to about \$1.7 trillion; the budget resolution recommends a total cut of \$1.3 trillion. For discretionary spending, the President's budget would increase outlays by about \$78 billion over the 2002-2011 period relative to CBO's baseline; the levels recommended in the budget resolution would reduce total discretionary outlays by about \$10 billion over the same period—including \$35 billion in defense spending increases and \$45 billion in nondefense spending cuts. For mandatory spending, the largest difference is in the plans' respective recommendations for Medicare. The President recommends policy changes that he estimates would increase Medicare spending by \$153 billion over the 2002-2011 period (\$43 billion for the "Immediate Helping Hand" program and \$110 billion for the "Medicare Modernization" proposal). In contrast, the budget resolution recommends increases in Medicare spending of about \$305 billion over the 10-year period.

Table 1.**Comparison of Projected Surpluses in CBO's Baseline and Its Estimate of the President's Budget for 2002
(By fiscal year, in billions of dollars)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
<hr/>												
Surplus in CBO's Baseline												
On-budget	119	132	166	197	215	270	322	366	425	495	553	3,142
Off-budget	<u>156</u>	<u>172</u>	<u>187</u>	<u>202</u>	<u>221</u>	<u>238</u>	<u>256</u>	<u>275</u>	<u>293</u>	<u>311</u>	<u>330</u>	<u>2,487</u>
Total	275	304	353	400	437	508	578	641	718	806	883	5,629
<hr/>												
Surplus in CBO's Estimate of the President's Budget												
On-budget	116	86	75	72	42	46	51	56	73	87	111	698
Off-budget	<u>156</u>	<u>171</u>	<u>187</u>	<u>202</u>	<u>221</u>	<u>237</u>	<u>255</u>	<u>275</u>	<u>292</u>	<u>310</u>	<u>330</u>	<u>2,481</u>
Total	272	257	262	274	262	283	306	331	365	398	440	3,179
<hr/>												
Difference (Baseline minus President's budget)												
On-budget	3	46	91	125	174	225	271	310	352	408	442	2,443
Off-budget	<u>0</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>6</u>
Total	3	47	91	125	174	225	272	311	353	408	442	2,449

SOURCE: Congressional Budget Office.

NOTE: * = between zero and \$500 million.

Table 2.
The President's 10-Year Budget Plan (By fiscal year, in billions of dollars)

	Total, 2002-2011	
	CBO's Estimate	Administration's Estimate
Baseline Surplus	5,629	5,637
Tax Proposals (Revenue effects only)	-1,698	-1,612
Spending Proposals		
Immediate Helping Hand and Medicare Modernization plan ^a	-153	-153
Other spending proposals (Including outlay effects of tax proposals)	-137	-19
Additional debt service	<u>-462</u>	<u>-420</u>
Remaining Surplus	3,179	3,433
Off-budget surplus ^b	2,481	2,591
Reserve for contingencies	698	841

SOURCES: Congressional Budget Office; Office of Management and Budget.

a. Sufficient detail is not available to permit CBO to do an independent estimate of these proposals. The estimates shown in the table are those contained in the President's budget.

b. The projected off-budget surplus consists principally of the surpluses of the Social Security trust funds.

Table 3.
Changes in CBO's Baseline Projections of the Surplus Since January 2001
(By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
January 2001 Baseline Surplus	281	313	359	397	433	505	573	635	710	796	889	5,610
Technical Changes												
Revenues	-20	-10	-5	*	*	*	*	*	*	*	*	-15
Outlays												
Discretionary	-4	-4	-3	-2	-2	-3	-3	-3	-3	-3	*	-27
Mandatory												
Medicaid	*	*	-1	-2	-2	-2	-3	-3	-3	-4	-5	-25
SSI	*	-1	-1	-1	-2	-2	-2	-3	-3	-3	1	-17
Credit reestimates	-11	0	0	0	0	0	0	0	0	0	0	0
SCHIP	1	1	1	1	1	1	1	1	1	1	*	7
FHA (Mutual Mortgage Insurance) ^a	2	2	2	2	2	2	2	2	2	2	2	19
Other	-1	1	3	*	*	1	*	*	-1	-2	7	9
Subtotal, mandatory	-10	3	3	*	-2	*	-2	-3	-4	-7	6	-7
Subtotal, outlays	-14	-1	1	-3	-4	-3	-5	-6	-8	-10	6	-34
Total Effect on Surplus	-6	-9	-6	3	4	3	5	6	8	10	-6	19
May 2001 Baseline Surplus	275	304	353	400	437	508	578	641	718	806	883	5,629

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million; SSI = Supplemental Security Income; SCHIP = State Children's Health Insurance Program; FHA = Federal Housing Administration.

a. Outlay increases reflect offsetting collections reclassified as discretionary.

Table 4.
CBO's Projections of Debt Held by the Public and Net Indebtedness at the End of the Year
(By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBO's Baseline												
Debt Held by the Public	3,410	3,169	2,870	2,537	2,157	1,738	1,306	1,185	1,100	1,007	953	898
Balance of Uncommitted Funds ^a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60	503	1,046	1,658	2,397	3,212
Net Indebtedness	3,410	3,169	2,870	2,537	2,157	1,738	1,246	682	54	-651	-1,444	-2,314
CBO's Estimate of the President's Budget for 2002												
Debt Held by the Public	3,410	3,173	2,921	2,679	2,426	2,183	1,917	1,623	1,303	1,007	953	898
Balance of Uncommitted Funds ^a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	58	391	767
Net Indebtedness	3,410	3,173	2,921	2,679	2,426	2,183	1,917	1,623	1,303	949	562	131
Memorandum:												
Debt Held by the Public as a Percentage of GDP												
Baseline	34.7	30.7	26.4	22.1	17.9	13.7	9.8	8.5	7.5	6.6	5.9	5.3
President's Budget	34.7	30.8	26.8	23.3	20.1	17.3	14.4	11.6	8.9	6.6	5.9	5.3

SOURCE: Congressional Budget Office.

a. CBO's term for the surpluses remaining each year after paying down the publicly held debt available for redemption. Uncommitted funds accumulate from one year to the next.

Table 5.
CBO's Baseline Budget Projections (By fiscal year)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
In Billions of Dollars												
Revenues												
Individual income taxes	1,004	1,071	1,125	1,176	1,230	1,289	1,354	1,424	1,500	1,583	1,675	1,774
Corporate income taxes	207	200	207	221	236	246	255	264	276	289	303	319
Social insurance taxes	653	686	725	762	797	840	879	921	963	1,010	1,059	1,110
Other	<u>161</u>	<u>158</u>	<u>169</u>	<u>179</u>	<u>190</u>	<u>194</u>	<u>200</u>	<u>207</u>	<u>216</u>	<u>225</u>	<u>234</u>	<u>244</u>
Total	2,025	2,115	2,226	2,338	2,453	2,570	2,689	2,816	2,955	3,107	3,271	3,447
On-budget	1,545	1,610	1,693	1,777	1,864	1,950	2,040	2,136	2,243	2,360	2,489	2,628
Off-budget	481	504	532	561	589	620	649	680	712	746	782	819
Outlays												
Discretionary spending	615	643	678	707	727	748	763	778	801	821	841	866
Mandatory spending	1,032	1,080	1,159	1,222	1,294	1,375	1,440	1,518	1,611	1,710	1,815	1,942
Offsetting receipts	-81	-88	-95	-107	-110	-107	-112	-119	-125	-131	-139	-148
Net interest	223	205	180	163	142	117	91	74	67	60	55	52
Proceeds earned on the balance of uncommitted funds ^a	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>-1</u>	<u>-13</u>	<u>-40</u>	<u>-71</u>	<u>-107</u>	<u>-148</u>
Total	1,789	1,839	1,922	1,985	2,054	2,133	2,181	2,238	2,314	2,389	2,465	2,564
On-budget	1,458	1,491	1,561	1,611	1,667	1,734	1,769	1,814	1,877	1,935	1,994	2,075
Off-budget	331	348	361	373	386	399	411	424	437	453	471	489
Surplus	236	275	304	353	400	437	508	578	641	718	806	883
On-budget	87	119	132	166	197	215	270	322	366	425	495	553
Off-budget	150	156	172	187	202	221	238	256	275	293	311	330
Memorandum:												
Gross Domestic Product	9,828	10,319	10,880	11,477	12,059	12,656	13,279	13,932	14,619	15,338	16,109	16,922

(Continued)

Table 5.
Continued

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
As a Percentage of GDP												
Revenues												
Individual income taxes	10.2	10.4	10.3	10.2	10.2	10.2	10.2	10.2	10.3	10.3	10.4	10.5
Corporate income taxes	2.1	1.9	1.9	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Social insurance taxes	6.6	6.6	6.7	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Other	<u>1.6</u>	<u>1.5</u>	<u>1.6</u>	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>	<u>1.4</u>	<u>1.4</u>
Total	20.6	20.5	20.5	20.4	20.3	20.3	20.2	20.2	20.2	20.3	20.3	20.4
On-budget	15.7	15.6	15.6	15.5	15.5	15.4	15.4	15.3	15.3	15.4	15.5	15.5
Off-budget	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.8
Outlays												
Discretionary spending	6.3	6.2	6.2	6.2	6.0	5.9	5.7	5.6	5.5	5.4	5.2	5.1
Mandatory spending	10.5	10.5	10.7	10.6	10.7	10.9	10.8	10.9	11.0	11.1	11.3	11.5
Offsetting receipts	-0.8	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9
Net interest	2.3	2.0	1.7	1.4	1.2	0.9	0.7	0.5	0.5	0.4	0.3	0.3
Proceeds earned on the balance of uncommitted funds ^a	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>—</u> [*]	<u>-0.1</u>	<u>-0.3</u>	<u>-0.5</u>	<u>-0.7</u>	<u>-0.9</u>
Total	18.2	17.8	17.7	17.3	17.0	16.9	16.4	16.1	15.8	15.6	15.3	15.2
On-budget	14.8	14.5	14.3	14.0	13.8	13.7	13.3	13.0	12.8	12.6	12.4	12.3
Off-budget	3.4	3.4	3.3	3.3	3.2	3.2	3.1	3.0	3.0	3.0	2.9	2.9
Surplus	2.4	2.7	2.8	3.1	3.3	3.5	3.8	4.1	4.4	4.7	5.0	5.2
On-budget	0.9	1.2	1.2	1.4	1.6	1.7	2.0	2.3	2.5	2.8	3.1	3.3
Off-budget	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9	1.9	2.0

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = between -0.05 percent and zero.

a. "Uncommitted funds" is CBO's term for the surpluses remaining in each year after paying down publicly held debt available for redemption.

Table 6.
Comparison of CBO's and the Administration's Estimates of the Budget for 2002
(By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
CBO's Reestimate of the President's Budget for 2002												
Revenues	2,115	2,201	2,275	2,359	2,440	2,517	2,616	2,735	2,863	3,001	3,165	26,173
On-budget	1,610	1,669	1,715	1,770	1,820	1,868	1,936	2,023	2,117	2,219	2,346	19,482
Off-budget	504	532	561	589	620	649	680	712	746	782	819	6,691
Outlays												
Discretionary	643	684	712	733	755	770	786	809	830	855	875	7,809
Mandatory	994	1,078	1,133	1,199	1,287	1,345	1,421	1,510	1,602	1,703	1,825	14,102
Net interest ^a	206	182	168	153	135	119	103	86	66	46	25	1,083
Total	1,843	1,944	2,013	2,084	2,177	2,234	2,310	2,405	2,498	2,604	2,725	22,994
On-budget	1,495	1,583	1,639	1,698	1,778	1,822	1,885	1,967	2,044	2,132	2,235	18,784
Off-budget	348	361	374	387	399	412	425	438	454	472	490	4,210
Surplus	272	257	262	274	262	283	306	331	365	398	440	3,179
On-budget	116	86	75	72	42	46	51	56	73	87	111	698
Off-budget	156	171	187	202	221	237	255	275	292	310	330	2,481
Administration's Estimate of the President's Budget for 2002												
Revenues	2,137	2,192	2,258	2,339	2,438	2,529	2,643	2,771	2,910	3,058	3,233	26,370
On-budget	1,633	1,661	1,697	1,749	1,809	1,870	1,950	2,044	2,149	2,255	2,386	19,570
Off-budget	504	531	561	590	629	659	693	726	761	804	846	6,800
Outlays												
Discretionary	649	692	712	731	754	770	787	809	830	854	877	7,816
Mandatory	1,001	1,081	1,129	1,184	1,270	1,326	1,408	1,498	1,591	1,693	1,810	13,991
Net interest ^a	206	188	175	161	145	127	109	90	69	46	20	1,130
Total	1,856	1,961	2,016	2,077	2,169	2,224	2,303	2,398	2,490	2,593	2,706	22,938
On-budget	1,509	1,601	1,649	1,697	1,776	1,818	1,880	1,959	2,032	2,113	2,203	18,729
Off-budget	348	359	368	380	392	406	423	439	458	480	504	4,209
Surplus	281	231	242	262	269	305	340	373	420	465	526	3,433
On-budget	125	59	49	52	32	52	69	85	117	142	184	841
Off-budget	156	172	193	211	237	252	270	287	303	323	343	2,591

(Continued)

Table 6.
Continued

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
Difference (CBO minus Administration)												
Revenues	-22	9	17	20	2	-12	-27	-35	-47	-57	-67	-197
On-budget	-23	8	17	22	11	-2	-14	-22	-32	-36	-40	-88
Off-budget	*	1	*	-2	-9	-9	-13	-14	-15	-22	-27	-109
Outlays												
Discretionary	-6	-7	*	2	1	*	-1	-1	*	1	-1	-7
Mandatory	-7	-3	4	15	17	18	13	12	11	9	15	111
Net interest ^a	-1	-7	-7	-9	-9	-8	-6	-5	-3	*	5	-48
Total	-14	-17	-3	8	9	10	7	7	8	10	18	57
On-budget	-14	-18	-9	1	2	4	5	7	12	19	32	55
Off-budget	*	2	6	7	7	6	2	-1	-4	-9	-14	2
Surplus	-9	26	20	12	-7	-22	-34	-42	-55	-67	-86	-253
On-budget	-9	26	26	21	9	-7	-18	-29	-44	-55	-73	-143
Off-budget	*	*	-6	-9	-16	-15	-15	-13	-11	-13	-13	-110

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTE: * = between -\$500 million and \$500 million.

a. Includes earnings on the balance of uncommitted funds.

Table 7.**Sources of Differences Between CBO's and the Administration's Estimates of the President's Budgetary Proposals (By fiscal year, in billions of dollars)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
Administration's Estimate												
Surplus Under the President's Budgetary Policies	281	231	242	262	269	305	340	373	420	465	526	3,433
Sources of Differences Between CBO and the Administration												
Revenue Differences												
Baseline	-23	5	14	15	*	-9	-20	-24	-25	-30	-36	-110
Policy	<u>*</u>	<u>5</u>	<u>4</u>	<u>5</u>	<u>1</u>	<u>-3</u>	<u>-7</u>	<u>-12</u>	<u>-22</u>	<u>-27</u>	<u>-31</u>	<u>-87</u>
Subtotal	-22	9	17	20	2	-12	-27	-35	-47	-57	-67	-197
Outlay Differences												
Discretionary	-6	-7	*	2	1	*	-1	-1	*	1	-1	-7
Mandatory												
Baseline	-7	-4	*	8	9	10	5	4	3	2	7	44
Policy	<u>*</u>	<u>1</u>	<u>4</u>	<u>6</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>67</u>
Subtotal, mandatory	-7	-3	4	15	17	18	13	12	11	9	15	111
Net interest	<u>-1</u>	<u>-7</u>	<u>-7</u>	<u>-9</u>	<u>-9</u>	<u>-8</u>	<u>-6</u>	<u>-5</u>	<u>-3</u>	<u>*</u>	<u>5</u>	<u>-48</u>
Total, outlays	-14	-17	-3	8	9	10	7	7	8	10	18	57
All Differences	-9	26	20	12	-7	-22	-34	-42	-55	-67	-86	-253
CBO's Estimate												
Surplus Under the President's Budgetary Proposals	272	257	262	274	262	283	306	331	365	398	440	3,179
Memorandum:												
Economic Differences												
Revenues	1	-5	-17	-32	-51	-67	-79	-84	-88	-92	-100	-614
Outlays	<u>-4</u>	<u>-3</u>	<u>-2</u>	<u>-3</u>	<u>-5</u>	<u>-8</u>	<u>-13</u>	<u>-18</u>	<u>-24</u>	<u>-30</u>	<u>-35</u>	<u>-142</u>
Total	5	-2	-15	-29	-46	-59	-66	-66	-64	-62	-64	-473
Technical Differences												
Revenues	-24	15	34	52	53	55	52	49	41	35	32	417
Outlays	<u>-10</u>	<u>-13</u>	<u>-1</u>	<u>11</u>	<u>14</u>	<u>19</u>	<u>20</u>	<u>25</u>	<u>32</u>	<u>40</u>	<u>54</u>	<u>198</u>
Total	-14	28	36	41	39	37	33	24	9	-6	-21	219

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

Table 8.
CBO's Estimate of the Effect of the President's Proposals on Baseline Surpluses
(By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
CBO's Baseline Surplus	275	304	353	400	437	508	578	641	718	806	883	5,629
Effect of the President's Proposals												
Revenues	0	-25	-63	-94	-130	-172	-199	-220	-243	-270	-282	-1,698
Outlays												
Discretionary	1	6	5	6	7	7	8	8	9	14	9	78
Mandatory												
Immediate Helping Hand ^a	3	11	13	15	4	0	0	0	0	0	0	43
Medicare ^a	0	0	0	0	8	13	13	16	17	20	24	110
Medicaid	0	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-10
Auctions of electromagnetic spectrum	0	4	3	-3	-1	-4	*	*	*	*	*	-3
Earned income and child tax credits	0	*	1	2	2	3	3	3	3	3	3	24
Health care tax credit	0	0	3	4	6	7	7	6	6	6	6	52
Other	*	*	*	-1	*	*	*	*	-1	-1	-1	-4
Subtotal, mandatory	3	14	19	15	19	17	22	24	24	27	31	211
Net interest	*	2	5	11	18	29	43	59	77	98	121	462
Subtotal, outlays	3	22	28	31	44	54	73	91	110	138	160	751
Total Effect on Surplus	-3	-47	-91	-125	-174	-225	-272	-311	-353	-408	-442	-2,449
Surplus Under the President's Proposals	272	257	262	274	262	283	306	331	365	398	440	3,179

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

a. Sufficient detail is not available to permit CBO to do an independent estimate of these proposals. The estimates shown in the table are those contained in the President's budget.

Table 9.
CBO's Estimate of the President's Revenue Proposals, Including Effects on Outlays
(By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
Reduce Existing Individual Income Tax Rates	0	-13	-24	-38	-48	-64	-71	-73	-74	-77	-79	-560
Create a 10 Percent Individual Income Tax Rate	0	-6	-14	-22	-30	-38	-41	-41	-42	-42	-43	-317
Repeal Estate and Gift Taxes	0	*	-6	-7	-11	-17	-23	-36	-53	-73	-79	-306
Increase the Child Tax Credit	0	-1	-6	-11	-17	-22	-28	-29	-31	-32	-33	-211
Reinstate the Two-Earner Deduction	0	-1	-4	-7	-10	-12	-13	-13	-14	-14	-15	-103
Allow Nonitemizers to Deduct Charitable Contributions	0	*	-2	-4	-6	-9	-11	-12	-13	-14	-15	-84
Make the Research and Experimentation Tax Credit Permanent	0	0	0	-1	-4	-5	-6	-7	-8	-8	-9	-47
Other	<u>0</u>	<u>-3</u>	<u>-11</u>	<u>-10</u>	<u>-14</u>	<u>-16</u>	<u>-17</u>	<u>-18</u>	<u>-19</u>	<u>-19</u>	<u>-20</u>	<u>-146</u>
Total ^a	0	-25	-67	-100	-138	-181	-209	-230	-253	-280	-292	-1,774
Memorandum:												
Outlay Effects ^b	0	*	4	5	8	10	10	10	10	10	9	76
Revenue Effects	0	-25	-63	-94	-130	-172	-199	-220	-243	-270	-282	-1,698

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: * = between -\$500 million and \$500 million.

a. Includes effects on outlays.

b. This amount includes the effects on outlays from child tax credits, earned income tax credits, and the proposed health insurance credit. Increases in outlays are shown as positive numbers.

Table 10.
CBO's Baseline Projections of Mandatory Spending (By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Means-Tested Programs												
Medicaid	118	130	142	151	164	177	192	208	226	245	267	291
State Children's Health Insurance	1	4	4	4	5	4	4	5	5	5	5	5
Food Stamps	18	19	20	21	22	23	24	24	25	26	27	27
Supplemental Security Income	31	27	31	33	35	39	38	37	42	44	47	53
Family Support ^a	21	24	25	25	25	25	26	26	26	26	26	26
Veterans' Pensions	3	3	3	3	3	3	3	3	3	4	4	5
Child Nutrition	9	10	10	10	11	11	12	12	13	13	14	14
Earned Income and Child Tax Credits	27	27	27	27	28	28	28	28	29	29	29	29
Student Loans	1	-1	5	4	4	4	4	4	4	4	4	4
Foster Care	5	6	6	7	7	8	8	9	10	10	11	11
Total	236	248	273	287	303	324	340	356	382	406	432	466
Non-Means-Tested Programs												
Social Security	406	429	451	474	498	523	550	578	608	643	680	719
Medicare	216	238	253	270	290	315	333	362	391	422	456	501
Subtotal	622	668	704	744	787	839	883	940	999	1,065	1,136	1,220
Other Retirement and Disability												
Federal civilian ^b	50	53	56	59	62	65	68	72	75	78	82	85
Military	33	34	35	36	37	38	39	40	41	42	43	44
Other	5	5	5	5	5	5	5	5	5	5	5	6
Subtotal	88	92	96	100	104	108	113	117	121	126	130	135
Unemployment Compensation	21	24	26	27	29	32	33	35	38	40	41	43
Other Programs												
Veterans' benefits ^c	24	21	25	26	28	31	30	28	31	32	33	36
Commodity Credit Corporation Fund	30	17	11	10	10	9	8	7	6	5	5	5
Social services	5	5	5	5	5	5	5	5	5	5	5	5
Credit liquidating accounts	-11	-7	-6	-6	-7	-7	-6	-6	-6	-6	-5	-5
Universal Service Fund	4	5	6	6	12	13	13	13	13	13	13	13
Department of Defense health care	0	0	0	6	6	7	7	7	8	9	9	10
Other	14	6	20	17	17	16	15	15	15	15	15	15
Subtotal	66	47	60	64	70	73	71	69	72	73	75	79
Total	796	831	886	935	991	1,051	1,100	1,161	1,229	1,303	1,383	1,477
Total												
All Mandatory Spending	1,032	1,080	1,159	1,222	1,294	1,375	1,440	1,518	1,611	1,710	1,815	1,942

SOURCE: Congressional Budget Office.

NOTES: Spending for the benefit programs shown above generally excludes administrative costs, which are discretionary. Spending for Medicare also excludes premiums, which are considered offsetting receipts (such receipts are not included in this table).

- Includes Temporary Assistance for Needy Families, Payments to States for Child Support Enforcement and Family Support, Child Care Entitlement to States, and Children's Research and Technical Assistance.
- Includes Civil Service, Foreign Service, Coast Guard, and other small retirement programs and annuitants' health benefits.
- Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

Table 11.
Discretionary Spending Under the President's Budgetary Proposals and CBO's Baseline Projections
(By fiscal year, in billions of dollars)

	2001	2002 ^a	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBO's Estimate of Total Discretionary Spending Under the President's Budget											
Budget Authority											
Defense	311	325	334	343	353	363	373	383	394	405	416
Nondefense	<u>324</u>	<u>336</u>	<u>352</u>	<u>360</u>	<u>368</u>	<u>376</u>	<u>385</u>	<u>395</u>	<u>404</u>	<u>418</u>	<u>422</u>
Total	635	661	686	703	721	738	758	778	798	823	838
Outlays											
Defense	301	320	326	335	348	355	362	376	387	398	413
Nondefense	<u>342</u>	<u>364</u>	<u>386</u>	<u>398</u>	<u>407</u>	<u>415</u>	<u>424</u>	<u>433</u>	<u>443</u>	<u>457</u>	<u>462</u>
Total	643	684	712	733	755	770	786	809	830	855	875
CBO's Baseline for Discretionary Spending											
Budget Authority											
Defense	311	322	330	339	347	356	366	375	385	394	405
Nondefense	<u>324</u>	<u>340</u>	<u>349</u>	<u>358</u>	<u>367</u>	<u>376</u>	<u>385</u>	<u>395</u>	<u>405</u>	<u>415</u>	<u>426</u>
Total	635	662	679	697	714	732	751	769	789	809	830
Outlays											
Defense	301	314	323	332	344	350	356	369	378	388	402
Nondefense	<u>341</u>	<u>364</u>	<u>384</u>	<u>395</u>	<u>404</u>	<u>413</u>	<u>422</u>	<u>432</u>	<u>442</u>	<u>453</u>	<u>464</u>
Total	643	678	707	727	748	763	778	801	821	841	866

SOURCE: Congressional Budget Office.

a. Budget authority in 2002 under the President's budget excludes \$22.7 billion in advance appropriations that the President proposes to reclassify as mandatory spending.

Table 12.

Comparison of Discretionary Budget Authority Enacted for 2001 and the President's Request for 2002, by Budget Function (By fiscal year, in billions of dollars)

Budget Function	2001 Enacted	2002 Request ^a	<u>Increase or Decrease (-)</u>	
			Billions of Dollars	Percent
Defense Discretionary (National defense)	311.1	325.1	14.0	4.5
Nondefense Discretionary				
International affairs	22.7	23.9	1.2	5.3
General science, space, and technology	20.9	21.2	0.3	1.6
Energy	3.1	2.8	-0.3	-10.1
Natural resources and environment	28.7	26.4	-2.3	-8.0
Agriculture	4.8	4.8	*	0.6
Commerce and housing credit	0.9	-0.1	-1.0	-109.5
Transportation	18.9	16.8	-2.1	-11.0
Community and regional development	11.6	10.4	-1.2	-10.5
Education, training, employment, and social services	61.2	65.4	4.2	6.9
Health	38.8	41.0	2.2	5.8
Medicare (Administrative costs)	3.4	3.5	0.1	3.4
Income security	39.4	42.8	3.3	8.5
Social Security (Administrative costs)	3.4	3.5	0.1	2.1
Veterans' benefits and services	22.5	23.5	1.0	4.5
Administration of justice	30.0	29.8	-0.1	-0.5
General government	13.9	14.8	0.8	6.0
Allowances for emergencies and other needs	<u>n.a.</u>	<u>5.3</u>	<u>5.3</u>	<u>n.a.</u>
Subtotal, nondefense	324.0	335.8	11.8	3.6
Total Discretionary	635.1	660.8	25.7	4.0
Memorandum:				
Transportation Obligation Limitations	38.3	40.9	2.6	6.7

SOURCE: Congressional Budget Office.

NOTE: * = between zero and \$50 million; n.a. = not applicable.

a. As estimated by CBO. Excludes budget authority for advance appropriations that the President proposes to reclassify as mandatory.

Table 13.
Comparison of CBO's and the Administration's Economic Projections for Calendar Years 2001-2011

	Estimated 2000	Forecast		Projected Annual Average	
		2001	2002	2002-2006	2007-2011
Nominal GDP (Billions of dollars)					
CBO	9,974	10,446	11,029	13,439 ^a	17,132 ^b
Administration	9,974	10,434	11,004	13,550 ^a	17,524 ^b
Nominal GDP (Percentage change)					
CBO	7.3	4.7	5.6	5.1	5.0
Administration	7.3	4.6	5.5	5.3	5.3
Real GDP (Percentage change)					
CBO	5.1	2.4	3.4	3.1	3.1
Administration	5.1	2.4	3.3	3.1	3.1
GDP Price Index (Percentage change)					
CBO	2.1	2.3	2.1	1.9	1.9
Administration	2.1	2.1	2.1	2.1	2.1
Consumer Price Index ^c (Percentage change)					
CBO	3.4	2.8	2.8	2.6	2.5
Administration	3.4	2.7	2.6	2.5	2.5
Unemployment Rate (Percent)					
CBO	4.0	4.4	4.5	4.7	5.2
Administration	4.0	4.4	4.6	4.5	4.6
Three-Month Treasury Bill Rate (Percent)					
CBO	5.8	4.8	4.9	4.9	4.9
Administration	5.8	5.3	5.6	5.4	5.0
Ten-Year Treasury Note Rate (Percent)					
CBO	6.0	4.9	5.3	5.6	5.8
Administration	6.0	5.4	5.6	5.7	5.7
Tax Bases (Percentage of GDP)					
Corporate profits ^d					
CBO	9.4	8.9	8.5	8.2	8.0
Administration	9.4	9.1	8.9	8.8	8.2
Wages and salaries					
CBO	47.8	48.2	48.2	48.2	48.0
Administration	47.8	48.1	48.3	48.5	48.3

SOURCES: Congressional Budget Office; Office of Management and Budget; Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board; Department of Labor, Bureau of Labor Statistics.

NOTE: Percentage changes are year over year.

a. Level of GDP in 2006.

b. Level of GDP in 2011.

c. The consumer price index for all urban consumers.

d. Corporate profits are book profits.

Table 14.**Comparison of CBO's Baseline and OMB's Current-Services Baseline (By fiscal year, in billions of dollars)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
CBO's Baseline												
Revenues	2,115	2,226	2,338	2,453	2,570	2,689	2,816	2,955	3,107	3,271	3,447	27,872
On-budget	1,610	1,693	1,777	1,864	1,950	2,040	2,136	2,243	2,360	2,489	2,628	21,180
Off-budget	504	532	561	589	620	649	680	712	746	782	819	6,691
Outlays												
Discretionary	643	678	707	727	748	763	778	801	821	841	866	7,732
Mandatory	991	1,064	1,115	1,184	1,268	1,327	1,399	1,486	1,578	1,676	1,794	13,891
Net interest ^a	205	180	163	142	117	90	60	27	-10	-52	-96	621
Total	1,839	1,922	1,985	2,054	2,133	2,181	2,238	2,314	2,389	2,465	2,564	22,243
On-budget	1,491	1,561	1,611	1,667	1,734	1,769	1,814	1,877	1,935	1,994	2,075	18,039
Off-budget	348	361	373	386	399	411	424	437	453	471	489	4,204
Surplus	275	304	353	400	437	508	578	641	718	806	883	5,629
On-budget	119	132	166	197	215	270	322	366	425	495	553	3,142
Off-budget	156	172	187	202	221	238	256	275	293	311	330	2,487
OMB's April 2001 Current-Services Baseline												
Revenues	2,137	2,221	2,324	2,438	2,569	2,698	2,836	2,979	3,131	3,302	3,483	27,981
On-budget	1,633	1,690	1,764	1,847	1,940	2,039	2,143	2,253	2,370	2,498	2,637	21,181
Off-budget	504	531	561	590	629	659	693	726	761	804	846	6,800
Outlays												
Discretionary	649	684	707	726	746	766	788	809	831	854	878	7,789
Mandatory	998	1,067	1,114	1,176	1,259	1,317	1,394	1,482	1,575	1,674	1,787	13,846
Net interest ^a	206	186	169	150	125	99	69	36	*	-40	-85	710
Total	1,853	1,938	1,991	2,051	2,130	2,182	2,250	2,328	2,406	2,488	2,580	22,345
On-budget	1,505	1,579	1,623	1,671	1,738	1,777	1,829	1,890	1,949	2,009	2,077	18,144
Off-budget	348	359	367	379	392	405	422	438	457	479	503	4,201
Surplus	284	283	334	387	439	515	585	651	725	814	903	5,637
On-budget	128	111	140	176	202	262	314	363	421	489	560	3,038
Off-budget	156	172	194	211	237	253	272	289	304	324	344	2,599

(Continued)

Table 14.
Continued

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2011
Difference (CBO minus OMB)												
Revenues	-23	5	14	15	*	-9	-20	-24	-25	-30	-36	-110
On-budget	-23	3	14	17	9	*	-7	-10	-10	-9	-9	-1
Off-budget	*	1	*	-2	-9	-9	-13	-14	-15	-22	-27	-109
Outlays												
Discretionary	-6	-6	*	2	2	-4	-9	-8	-10	-13	-11	-57
Mandatory	-7	-4	*	8	9	10	5	4	3	2	7	44
Net interest ^a	<u>-1</u>	<u>-7</u>	<u>-6</u>	<u>-7</u>	<u>-8</u>	<u>-8</u>	<u>-8</u>	<u>-9</u>	<u>-11</u>	<u>-12</u>	<u>-12</u>	<u>-89</u>
Total	-14	-16	-6	3	3	-2	-13	-14	-18	-23	-16	-101
On-budget	-14	-18	-12	-4	-4	-8	-15	-13	-14	-14	-2	-105
Off-budget	*	2	6	7	7	6	2	*	-4	-8	-14	4
Surplus	-9	21	20	13	-3	-7	-7	-10	-7	-7	-20	-8
On-budget	-9	21	26	21	13	8	8	4	4	6	-7	104
Off-budget	*	*	-6	-9	-16	-15	-15	-13	-11	-13	-13	-112

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTE: * = between -\$500 million and \$500 million.

a. Includes earnings on the balance of uncommitted funds.

Table 15.
Comparison of CBO's Baseline and Alternative Budget Plans (By fiscal year, in billions of dollars)

	CBO's Baseline		President's Budget ^a		Congressional Budget Resolution		Difference from CBO's Baseline			
							President's Budget ^a		Congressional Budget Resolution	
	2002	2002-2011	2002	2002-2011	2002	2002-2011	2002	2002-2011	2002	2002-2011
Revenues										
On-budget	1,693	21,180	1,669	19,482	1,638	19,911	-25	-1,698	-55	-1,269
Off-budget	<u>532</u>	<u>6,691</u>	<u>532</u>	<u>6,691</u>	<u>532</u>	<u>6,691</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	2,226	27,872	2,201	26,173	2,171	26,603	-25	-1,698	-55	-1,269
Outlays										
Discretionary										
Defense	314	3,557	320	3,621	319	3,592	6	63	5	35
Nondefense	<u>364</u>	<u>4,175</u>	<u>364</u>	<u>4,189</u>	<u>363</u>	<u>4,130</u>	<u>*</u>	<u>14</u>	<u>-1</u>	<u>-45</u>
Subtotal	678	7,732	684	7,809	683	7,722	6	78	4	-10
Mandatory										
Social Security	451	5,724	451	5,724	452	5,721	0	0	*	-2
Medicare	226	3,169	226	3,279	226	3,474	0	110	*	305
Other	<u>386</u>	<u>4,998</u>	<u>401</u>	<u>5,100</u>	<u>405</u>	<u>5,181</u>	<u>14</u>	<u>102</u>	<u>19</u>	<u>183</u>
Subtotal	1,064	13,891	1,078	14,102	1,082	14,376	14	211	19	486
Net interest ^b	<u>180</u>	<u>621</u>	<u>182</u>	<u>1,083</u>	<u>187</u>	<u>1,120</u>	<u>2</u>	<u>462</u>	<u>7</u>	<u>499</u>
Total Outlays	1,922	22,243	1,944	22,994	1,952	23,218	22	751	30	975
On-budget	1,561	18,039	1,583	18,784	1,590	19,015	22	745	29	976
Off-budget	361	4,204	361	4,210	361	4,204	*	6	1	-1
Surplus										
On-budget	132	3,142	86	698	48	897	-46	-2,443	-85	-2,245
Off-budget	<u>172</u>	<u>2,487</u>	<u>171</u>	<u>2,481</u>	<u>171</u>	<u>2,488</u>	<u>*</u>	<u>-6</u>	<u>-1</u>	<u>1</u>
Total	304	5,629	257	3,179	219	3,384	-47	-2,449	-85	-2,244
Memorandum:										
Discretionary Budget Authority ^c										
Defense	322	3,619	325	3,688	325	3,656	3	69	3	37
Nondefense	<u>340</u>	<u>3,815</u>	<u>336</u>	<u>3,815</u>	<u>336</u>	<u>3,774</u>	<u>-4</u>	<u>1</u>	<u>-4</u>	<u>-41</u>
Total	662	7,434	661	7,504	661	7,430	-1	70	-1	-4

SOURCE: Congressional Budget Office.

NOTE: * = between -\$500 million and \$500 million.

a. As estimated by CBO.

b. Includes earnings on the balance of uncommitted funds.

c. Budget authority in the Administration's budget excludes \$22.7 billion in advance appropriations for 2002 that the President proposes to reclassify as mandatory spending.

Major Contributors to the Revenue and Spending Projections

The following Congressional Budget Office analysts prepared the revenue and spending projections in this report:

Revenue Projections

Mark Booth	Revenue forecasting
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Ed Harris	Social insurance taxes
Carolyn Lynch	Corporate income taxes, Federal Reserve System earnings
Larry Ozanne	Capital gains realizations
Robert Taylor	Excise taxes
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Spending Projections

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Mark Hadley	Deposit insurance, credit unions, air transportation
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